Nikkei Indonesia Manufacturing PMI™

Output falls at softest pace in current 17-month sequence of reduction

Key points:

- Production contracts at marginal and slower pace
- New orders from both domestic and external clients continue to decline
- Firms cut jobs in February

Summary:

Business conditions across Indonesia's manufacturing economy continued to deteriorate during February, with output, new orders, exports and employment all falling. That said, production decreased at the weakest rate in the current 17-month sequence of contraction and one that was marginal overall. Inflationary pressures gained strength, but rates of increase in both input costs and output charges were below their respective long-run averages.

Falling from 48.9 in January to 48.7 in February, the seasonally adjusted Nikkei Indonesia Manufacturing *Purchasing Managers' Index*™ (*PMI*)™ – a composite gauge designed to give a single-figure snapshot of manufacturing business conditions – remained in contraction territory. The downward movement in the headline index mainly reflected a renewed decline in employment and a sharper reduction in stocks of purchases.

February data pointed to a seventeenth successive monthly decline in manufacturing production. That said, the pace of reduction eased to the weakest in this sequence. Where output decreased, panellists frequently cited falling new work.

Indeed, incoming new orders contracted for the seventeenth month running in February. Unchanged since the previous month, the pace of reduction was modest overall. Anecdotal evidence highlighted weak demand conditions and deteriorating purchasing power among consumers.

Amid evidence of subdued global demand, new business from abroad also fell in February. Although faster than in the prior month, the pace of contraction remained modest.

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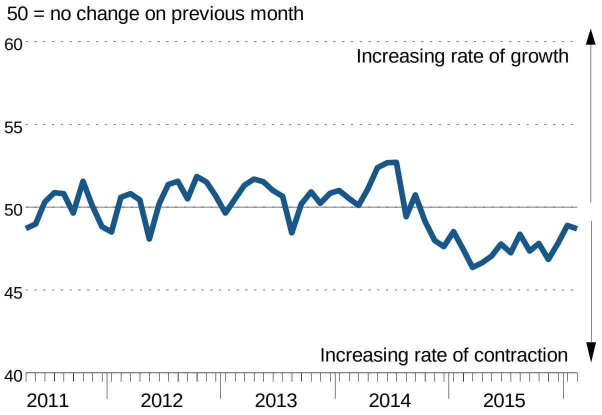

Sources: Nikkei, Markit

Faced with fewer projects, Indonesian manufacturers shed jobs during February, following no change in workforce numbers during the previous month. Those firms signalling lower payroll numbers commented that temporary contracts were not renewed and voluntary leavers were not replaced.

Meanwhile, buying levels continued to decrease in February reflecting falling production needs. Purchasing activity contracted to a greater extent than in January. This led to a further improvement in vendor performance, with suppliers' delivery times shortening for the second successive month.

There was a divergence with regard to stock levels in February. Pre-production inventories decreased at a solid and accelerated pace, while holdings of manufactured goods increased.

Higher prices paid for raw materials such as metals, chemicals, plastics, textiles and paper led to a further increase in cost burdens. As a consequence, factory gate charges were raised again. Despite accelerating slightly since January, rates of inflation remained below their respective long-run averages in both cases.

Comment:

Commenting on the Indonesian Manufacturing PMI survey data, **Pollyanna De Lima,** Economist at Markit, which compiles the survey, said**:**

"PMI data for February indicate that Indonesian manufacturers continue to struggle. Production was lowered for the seventeenth month running amid weak domestic and external demand, while firms also shed jobs during the month.

"However, there are positive signs that the sector may turn the corner soon as highlighted by a moderation in the rate of contraction in output, which was the softest in the current downturn. On the monetary policy front, the Bank Indonesia continued its efforts to support economic growth and slashed the benchmark rate for the second straight month in February to 7.0%, providing a fresh shot in the arm for the country's economy."

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Notes to Editors:

The Nikkei Indonesia Manufacturing *PMI*™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper and Transport.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei Indonesia Manufacturing *PMI*™ is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.
Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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